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FISCAL IMPACT STATEMENT

LS 6344

BILL NUMBER: HB 1001

NOTE PREPARED: Feb 28, 2006

BILL AMENDED: Feb 28, 2006

SUBJECT: Various Tax Matters.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR: Sen. Kenley

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) ***Remote Meeting Participation:*** The bill permits members of the Indiana Finance Authority (IFA), the Indiana Economic Development Corporation (IEDC), or a committee or subcommittee appointed by IEDC who are not physically present at a meeting to participate in the meeting under certain conditions.

Reassessment of Sold Lots: The bill specifies when a lot or tract held for sale in the ordinary course of trade or business may be reassessed for property tax purposes.

Reassessment Fund Transfers: The bill provides that money in a property tax reassessment fund may not be transferred to any other fund.

Standard Homestead Deduction: The bill increases the \$35,000 standard deduction from the assessed value of homesteads by an amount based on the statewide average percentage increase in the assessed value of homesteads.

Property Tax Installment Payments: This bill allows a county council to petition the Department of Local Government Finance to establish an installment plan for property tax payments (without requiring the petition to be approved by the county treasurer and county auditor).

Abatements for Used Equipment: The bill provides that certain equipment installed in an Economic Revitalization Area or a Maritime Opportunity District after being used in Indiana by a person other than the tax abatement applicant is eligible for tax abatement.

Petition and Remonstrances: The bill provides that certain prohibitions against a political subdivision promoting a position on a petition or remonstrance concerning bonds or a lease apply after the political subdivision makes a preliminary determination to issue the bonds or enter into the lease. The bill provides standards for reviewing signatures on remonstrance petitions.

Credit for Excessive Residential Property Tax: The bill provides that for property taxes payable in 2006 and 2007, the county fiscal body may decide whether to authorize the credit for residential property taxes in excess of 2% of the gross assessed value of the property. For property taxes payable in 2008 and 2009, the bill provides a credit for residential property taxes in excess of 2% of the gross assessed value of the property (without any action by the county fiscal body). For property taxes payable in 2010 and after, the bill provides a credit for taxes in excess of 2% of the gross assessed value of all real and personal property (without any action by the county fiscal body).

PTRC Received by C-Corporations: The bill provides a reduced property tax replacement credit beginning in 2007 for real property when a C-Corporation is liable for the property taxes and requires compliance with certain additional reporting procedures.

Taxpayer Notifications: The bill requires the Department of Local Government Finance to prescribe a combined statement for billing property taxes and special assessments and providing information to taxpayers.

EZ Investment Deduction: The bill provides that a taxpayer is entitled to an Enterprise Zone (EZ) Investment Deduction in a military installation designated as an Enterprise Zone only if the deduction is approved by the Military Base Reuse Authority Board.

Utility Services User Tax: The bill provides that an out-of-state provider is subject to the Utility Services Tax whenever the provider furnishes utility services to an end user in Indiana for consumption in Indiana and the transaction is not otherwise exempt from taxation. It also imposes a Utility Services Use Tax on a person that uses or consumes utility services received from an out-of-state provider.

LIHEAP Sales Tax Exemption: The bill provides a Sales Tax exemption for sales of home energy after June 30, 2006, and before July 1, 2007, to a person who acquires the energy through certain home energy assistance programs.

Other Sales and Use Tax Provisions: The bill provides that certain persons who use, store, distribute, or consume tangible personal property in Indiana are subject to the Use Tax. It provides that retail merchants may not assign certain deductions from Sales and Use Taxes.

Corporate Adjusted Gross Income (AGI) Tax Add Back: The bill requires corporations under certain circumstances to add back to state Adjusted Gross Income certain deductions taken from federal income taxes for intangibles expenses and directly related intangible interest expenses.

Single-Sales-Factor Apportionment: The bill increases, over five years, the sales factor used to apportion business income for purposes of the Adjusted Gross Income Tax. It eliminates the property factor and payroll factor that are also used in apportioning income for taxable years beginning after December 31, 2010.

Other Corporate Tax Provisions: The bill requires a corporation that files combined Income Tax returns to petition the Department of State Revenue for permission to discontinue filing combined returns. The bill also

makes a clarification relating to delivery or shipment of property to an Indiana resident.

Hoosier Business Investment Tax Credit (HBITC): The bill deletes the January 1, 2008, deadline for a purchase of motion picture or audio production equipment to be eligible as a qualified investment for purposes of the HBITC. It extends by two years (from December 31, 2007, to December 31, 2009) the date by which a qualified investment must be made in order to be eligible for the HBITC.

Jackson County CAGIT: The bill allows Jackson County to impose a county Adjusted Gross Income Tax (CAGIT) rate of 1.1% through June 30, 2011.

Jasper County CAGIT: The bill allows Jasper County to adopt up to an additional 0.25% CAGIT rate for operating and maintaining certain criminal justice facilities.

Elkhart County/Marshall County CAGIT: The bill provides that CAGIT revenue in Elkhart County and Marshall County may also be used to operate and maintain certain criminal justice facilities (in addition to the financing, construction, acquisition, renovation, and equipment of those facilities permitted under existing law).

Scott County COIT: This bill allows Scott County to impose an additional county option income tax rate to construct, improve, or operate a jail facility.

Dog Tax: The bill repeals the current Dog Tax and establishes a County Option Dog Tax. The bill allocates revenue from the County Option Dog Tax to the Purdue University School of Veterinary Science and to each adopting county.

County Income Tax: This bill permits a county to freeze the property tax levies imposed in the county and fund the growth in local tax levies from an additional county income tax. The bill permits an additional county income tax rate of not more than 1% to further reduce the property taxes imposed in the county. It also limits the amount of local property tax relief that may be granted to C Corporations.

Tuition Support: The bill increases the 2006 calendar year cap on state tuition support distributions. It also increases the state fiscal year appropriation for state tuition support distributions for the state fiscal year beginning July 1, 2005, and ending June 30, 2006.

Farm Mutual Insurance Companies: The bill provides that a farm mutual insurance company may elect taxation under the Gross Premium Tax instead of the Adjusted Gross Income Tax.

Adoption of CEDIT for Homestead Credits: For 2006 only, the bill establishes a June 1 deadline (instead of April 1) for a county to adopt an ordinance imposing an additional County Economic Development Income Tax rate for a property tax credit to mitigate the impact of the statewide deduction of assessed value of inventory.

Abatement - Foundry: The bill provides that a company that meets certain criteria may file refund claims for property tax deductions for new manufacturing equipment placed in service in an economic revitalization area.

Exemption - Fraternity: The bill provides a property tax exemption with respect to certain property taxes for a college fraternity that did not timely comply with filing requirements.

Exemption - Youth Soccer Organization: The bill permits a nonprofit corporation that operates a youth

soccer program to claim a refund for certain property taxes.

Fire Protection District Tax Levy: The bill authorizes a property tax levy appeal to the Department of Local Government Finance by certain fire protection districts that have experienced growth.

Redevelopment Commissions: The bill permits redevelopment commissions in counties other than Marion County to establish a housing program and a tax increment funding allocation area for that program. (Current law allows Marion County to establish such a program.)

Exemption - Missed Exemption: The bill permits a certain nonprofit entity to receive a property tax exemption for property taxes due in 2005.

Stadium & Convention Building Authority: The bill provides procedures that permit the Indiana Stadium and Convention Center to enter into a single source contract for supplies and waive performance bonds for public works contracts.

School General Fund Tax Rates: This bill requires adjustment of school fund tax rates to eliminate the effects of annual assessed valuation adjustments.

Maximum Levy Increase: This bill increases the maximum permissible property tax levy for certain rapidly growing municipalities.

Effective Date: Upon passage; July 1, 2005 (retroactive); January 1, 2006 (retroactive); July 1, 2006; January 1, 2007.

Explanation of State Expenditures: Remote Meeting Participation: The bill allows a member of the Indiana Finance Authority (IFA) or the Indiana Economic Development Corporation (IEDC) Board who is not present at the site of an Authority/Board meeting to participate in the meeting by using a means of communication permitting simultaneous communication between the member and other Authority/Board members and members of the public present at the meeting site. The bill requires at least 3 of 5 IFA members, or at least 7 of 12 IEDC Board members, to be present at the meeting site in order for a member to participate from another location. The member participating from another location is to be considered as being present at the Authority/Board meeting. IFA and IEDC Board members are entitled to reimbursement for travel and other expenses incurred in connection with their duties. IEDC Board members are also entitled to salary per diem equal to that provided to members of the General Assembly.

PTRC / Homestead Credit Background: The state currently pays PTRC in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits (HSC) are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Standard Homestead Deduction: The shift of property taxes from homesteads to other types of property will cause a reduction in the state's full liability for PTRC and homestead credits.

The current state budget, HEA 1001 (2005), appropriated \$2,028.5 M for each year of the FY 2006/FY 2007 biennium to pay PTRC/HSC expenses. If the PTRC and Homestead Credit rates generate a liability in a year

that is greater than the appropriation, then the DLGF must proportionately reduce the 60% school general fund, 20% regular PTRC, and 20% homestead credit percentages.

It is estimated that under current law the state's full liability for PTRC/HSC would exceed the FY 2007 appropriation by about \$55.9 M. The excess liability will require the DLGF to reduce the credit percentages for all of CY 2007, not just the part of CY 2007 that falls within FY 2007. The total CY 2007 PTRC/HSC reduction is currently estimated at \$167.3 M.

The increase in the standard deduction amount would reduce homestead property taxes and would reduce the amount by which the full payment in FY 2007 would exceed the appropriation from \$55.9 M down to \$48.7 M. The estimated total CY 2007 PTRC/HSC reduction under this provision would change from \$167.3 M to \$145.8 M. Actual state expenditures would be unchanged by this provision.

(Revised) ***PTRC Received by C-Corporations:*** Under this provision, the 20% portion of PTRC that is paid on real property would be reduced for real property owned by C-corporations. The new credit percentages would be 19% for taxes payable in 2007, 18% in 2008, 17% in 2009, 16% in 2010, and 15% per year for all years beginning with 2011. This analysis makes the following assumptions: No agricultural or residential property is owned by C-corporations; 50% of commercial and industrial property is owned by C-corporations; and 100% of utility property is owned by C-corporations. *These assumptions were made for illustration purposes as the actual amount of property owned by C corporations is unknown.*

Based on the previous assumptions, the 20% PTRC attributable to C-corporations and payable in 2007 (within the current appropriation) is *estimated* at \$121.2 M. Assuming that the cost of the credits remains substantially the same after 2007 and under the previously stated assumptions regarding ownership, the declining credit percentages would reduce PTRC payments to C-corporations by about \$6.1 M in CY 2007, \$12.1 M in CY 2008, \$18.2 M in CY 2009, \$24.2 M in CY 2010, and \$30.3 M in CY 2011. Under the current budget bill, HEA 1001 (2005), the FY 2006 and FY 2007 appropriations for PTRC and Homestead Credit may not exceed \$2,028.5 M. If necessary, the DLGF must reduce PTRC/HSC rates in order to stay within the appropriation. Since it is estimated that the CY 2007 credit rates will be reduced under current law to keep expenditures within the FY 2007 appropriation, part of the CY 2007 C-corporation PTRC reduction under this bill, about \$2 M, would be redistributed to other properties. The disposition of the remaining C-corporation PTRC reduction is subject to future appropriations for PTRC and Homestead Credits.

Under this provision, each taxpayer would have to indicate on their personal property return whether they are a C-corporation or not. They would also have to list their real property parcel numbers on the personal property return. Taxpayers who do not own personal property in a township would have to file a personal property return solely to report their C-corporation status and real property parcel numbers. Corporate income tax filers would also have to list their real property parcel numbers on their income tax returns.

Taxpayer Notifications: Under this provision, the DLGF, subject to State Board of Accounts approval, would prescribe the form of the property tax statement to be used by county treasurers beginning in 2008.

Current law contains a pilot program in selected counties that will become a statewide requirement in 2008 to provide additional statement information to all taxpayers. Currently, the state may reimburse each county for printing, mailing, and initial programming costs directly related to the new statements. The overall total reimbursement that may be paid for all counties is limited to \$50,000. This provision deletes the reimbursement language.

Dog Tax: The bill repeals provisions that provide for the Dog Tax. The bill also provides that if any money remains in the State Dog Account of the state General Fund on December 31, 2006, the Auditor of State must on January 1, 2007, abolish the account and distribute 50% of the money to Purdue University for the School of Veterinary Science and Medicine and 50% to counties that paid surplus money into the account. As of February 21, 2006, the State Dog Fund had a balance of \$48,864.

County Income Tax: Under this proposal, the state's PTRC/HSC payments would be frozen at CY 2006 levels, subject to appropriation. It is estimated that under current law the state's liability for PTRC/HSC in CY 2006 is \$2,033 M.

Under current law concerning PTRC/HSC distributions and property tax levies, it is estimated that the full cost of PTRC/HSC would be about \$2,182 M in CY 2007 and \$2,263 M in CY 2008, or \$2,083 M in FY 2007 and \$2,209 M in FY 2008. However, the current state budget appropriates \$2,028.5 M for each year of the FY 2006/FY 2007 biennium to pay PTRC/HSC expenses. Actual PTRC/HSC savings depends on future appropriation levels.

Tuition Support: The bill appropriates for FY 2006, the greater of an additional \$20.1 M or an amount sufficient for the Department of Education to fund the school formula without making any reduction in the tuition support for the first six months of CY 2006.

Fire Protection District Tax Levy: The bill could increase the levies for fire protection districts. The increase in expenditures from the Property Tax Replacement Fund would depend on the number of property tax appeals by fire protection districts. The maximum impact on the Property Tax Replacement Fund could be about \$3.5 M if all eligible districts applied for the maximum levy increase and the PTRC was not over the maximum amount. The maximum appeal would more than triple the levy for 27 of the 35 eligible districts. If a district only requested an appeal up to the amount of their 2005 levy, then the impact would be about \$1 M.

Department of State Revenue (DOR): The DOR will have additional administrative tasks and will incur additional expenses to revise tax forms, instructions, and computer programs due to the provisions of this bill concerning the following:

- Farm mutual insurance company tax treatment
- LIHEAP Sales Tax exemption
- Single-sales-factor apportionment
- Sales and Use Tax changes (bad debt assignment and use tax imposition)
- Corporate add-back for certain intangible expenses deducted for federal income tax purposes
- Utility Services User Tax

(Revised) **Stadium & Convention Building Authority:** The bill allows the Indiana Stadium and Convention Building Authority (ISCBA) to purchase supplies and contract for the installation of supplies when there is only one source for the supplies. To do so the purchasing agent for the ISCBA must determine in writing that: (1) the sole source is integral to the design of a project or sufficiently unique or specialized; and (2) alternative supplies are not available, present design problems, present warranty issues, or diminish the desired result. In addition, the ISCBA must determine in writing that purchase or contract with the sole source is in the best interest of the project. Under current statute, "supplies" include equipment, goods, and materials. The potential impact of this provision on project costs involving stadium and convention center improvements is indeterminable and would depend on action by the ISCBA.

The bill also allows the ISCBA to waive the payment bond requirements under current statute for contracts for public works projects if the ISCBA determines that: (1) an otherwise responsive and responsible bidder is unable to provide the required payment bond; or the cost or coverage of the payment bond is not in the best interest of the project; and (2) an adequate alternative is provided through a letter of credit, additional retainage, or other sufficient protective mechanism. In addition, the bill allows the ISCBA to waive the performance bond requirements under current statute under the same conditions.

(Revised) ***Certification of Additional Local Option Rates:*** The Department of State Revenue and the State Budget Agency would be required to adjust Scott County's COIT and Jasper County's CAGIT certified distribution for the year following a tax rate increase authorized under the bill. The Department and the Budget Agency should be able to carry out this provision within their existing resources.

Any overpayments of the distribution due to local option tax rate increases would be covered by the state General Fund until adjusted in the subsequent year distributions.

Explanation of State Revenues: Abatements for Used Equipment: The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

EZ Investment Deduction: The state levies a small tax rate for State Fair and State Forestry. Any impact on these levies due to the additional deduction approval requirement in EZs operated by military base reuse authorities would be very minimal.

Utility Services User Tax: This bill creates a Utility Services User Tax (USUT) which is imposed on a person that uses or consumes utility services received from an out-of-state provider. The person liable for the tax shall pay the tax to the provider, and the provider shall remit the tax to the state. The tax rate is the same rate as the Utility Receipts Tax (URT), or 1.4%. The tax is effective July 1, 2006. DOR shall establish procedures for the collection of the use tax and may require providers to register with the Department. The same exemptions to the URT apply to the USUT. According to DOR, there are currently a few out-of-state utility providers who are supplying services to Indiana companies and are not subject to the URT. This USUT will bring in an indeterminable amount of revenue beginning in FY 2007.

LIHEAP Sales Tax Exemption: This bill provides a one-year Sales Tax exemption for sales of home energy involving:

- (1) a person who is acquiring the energy through a home energy assistance program administered by the Division of Family Resources (DFR);
- (2) electrical energy, natural or artificial gas, water, steam, or steam heating service; and
- (3) energy which is acquired after June 30, 2006, and before July 1, 2007.

Creating a Sales Tax exemption for these home energy sales is expected to reduce state Sales Tax revenue by approximately \$2.24 M in FY 2007. However, it should be noted that the extent of this reduction will depend

in large part on the federal appropriations for the Low-Income Heating and Energy Assistance Program (LIHEAP). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). A \$2.24 M reduction in Sales Tax revenue would reduce FY 2007 distributions to these funds by the following amounts.

Fund	Reduction
Property Tax Replacement Fund	\$ 1,120,000
State General Fund	1,101,901
Public Mass Transportation Fund	14,224
Commuter Rail Service Fund	3,136
Industrial Rail Service Fund	739
Total	\$ 2,240,000

Background: General Fund money is not used to support the energy assistance programs administered by the Division of Family Resources. Funding for the state's energy assistance program comes from federal sources and dedicated state funds.

Since the early 1980s, the federal government has annually appropriated funds to states to provide energy assistance to low-income families. Indiana's program is divided into two components; the Energy Assistance Program (EAP) and the Weatherization Assistance Program (WAP). The program is primarily funded through the federal LIHEAP block grant. In accordance with federal guidelines, the state uses about 90% of the federal appropriation for energy assistance programs, and the remaining funds for weatherization programs. These programs also receive funds from the state's dedicated Oil Overcharge Accounts. These accounts were funded by settlements between the federal government and oil companies.

The state's energy assistance program provides grants for winter heating assistance and summer cooling assistance. Additionally, the program provides eligible persons with a one-time credit, as necessary, to prevent heat from becoming disconnected. Indiana's program currently provides assistance to persons within 125% of the federal poverty guidelines.

Energy assistance funds are distributed through a statewide network of 24 Community Action Agencies (CAA). In accordance with federal law, CAAs and the state retain a percentage of the federal grant money to cover administrative costs.

Over the past three fiscal years, federal LIHEAP benefits have provided approximately \$38.7 M in direct benefits to Indiana residents each year. Funding for energy assistance from the Oil Overcharge Accounts has ranged from \$2 M to \$4 M each year. Funding from the Oil Overcharge Accounts is expected to last through FY 2006.

Other Sales and Use Tax Provisions: The fiscal impact of these changes to the Sales and Use Tax is indeterminable. This bill provides that Use Tax is imposed on a person who:

- (1) manufactures, fabricates, or assembles tangible personal property from materials either within or outside Indiana; and
- (2) uses, stores, distributes, or consumes tangible personal property in Indiana.

The fiscal impact of this provision is indeterminable. It is estimated that this provision will cause an increase in Use Tax collections.

This bill also provides that for transactions occurring after June 30, 2006, a retail merchant may *NOT* assign the Sales and Use Tax deductions allowed under IC 6-2.5-6-9. This section allows a retail merchant deductions for transactions:

- (1) where the merchant did not collect Sales or Use Tax from the purchaser;
- (2) where the merchant previously paid Sales or Use Tax on the transaction; and
- (3) which were written off as uncollectible debt for federal tax purposes under section 166 of the Internal Revenue Code.

Under current law, these deductions are assignable. The fiscal impact of this provision is indeterminable. Sales and Use Tax collections would only be affected to the extent that a retail merchant, who previously would have assigned the deduction, could not then apply the deduction to the retailer merchant's own Sales and Use Tax liability.

Corporate AGI Tax Add-Back: The bill establishes an add-back of deductions taken on a corporation's federal income tax return for intangible expenses or certain intangible interest expenses paid, accrued, or incurred by the corporation with one or more members of the same "affiliated group" of corporations or with one or more foreign corporations. The amount of revenue that could potentially be captured due to the add-back is indeterminable and dependent on the number of corporate taxpayers currently conducting these types of transactions with affiliated group members. It is important to note that the magnitude of the fiscal impact also depends on the extent that these taxpayers can establish that they meet criteria (also specified in the bill) that precludes the add-back from applying to them. Since the add-back is effective for taxable years beginning after June 30, 2006, any fiscal impact could commence in FY 2007.

Under the bill an "affiliated group" is one or more corporations connected through stock ownership with a common parent corporation provided that: (1) the common parent directly owns stock of at least one of the group members comprising at least 50% of the voting power and 50% of the value of that group member; and (2) stock meeting the 50% test in each member other than the common parent must be owned directly by one or more of the other members.

Background: A common example of a related member transaction involves the use of a passive investment company (PIC) to transfer income to a tax haven state that is actually income earned and taxable in Indiana. An Indiana operating company can establish a PIC in a state that does not have a corporate income tax (like Nevada) or that has a special income tax exemption for intangibles (like Delaware). Once the company establishes a PIC in another state, the company can then transfer income ("profits") to the PIC by having the PIC charge a royalty fee to the Indiana company for the use of a trademark, patent, or other type of intangible asset. This reduces the Indiana AGI tax liability of the operating company.

These transactions are further complicated when a PIC loans "profits" back to the operating company, and the operating company can then deduct the loan interest from Indiana AGI, thereby reducing their tax liability. Typically, large multi-state retailers engage in these sorts of transactions. Companies are not required to include payments for intangibles in Indiana adjusted gross income if the company has a location in another country with a comprehensive income tax treaty with the United States.

Single-Sales-Factor Apportionment: The bill provides for a 5-year phaseout (from 2007 to 2011) of the payroll and property factors used to apportion a corporate taxpayer's adjusted gross income to Indiana under the AGI Tax. Beginning in 2011, AGI of corporate taxpayers would be apportioned solely on a single sales factor. Based on taxpayer simulations and the current forecast of corporate revenue collections, the change to single-sales-factor apportionment is estimated to result in a net decrease of revenue from the corporate AGI Tax as outlined in the table below.

Fiscal Impact	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Low Range	(\$2.0 M)	(\$6.1 M)	(\$10.4 M)	(\$14.9 M)	(\$25.3 M)	(\$34.0 M)
High Range	(\$3.1 M)	(\$10.0 M)	(\$17.6 M)	(\$26.2 M)	(\$45.9 M)	(\$63.9 M)

Background: The bill phases out the payroll and property factors for purposes of computing corporate AGI Tax. The apportionment formula is used to determine Indiana adjusted gross income for corporations whose income is derived from sources both within and outside Indiana. Currently, a three-factor apportionment formula is used including property, payroll, and sales (also called receipts) to allocate business income to the state. The sales factor is double-weighted so that the payroll and property factors combined represent 50% of the apportionment factor, with sales representing the remaining 50%. The current apportionment formula is shown below.

$$\left[\frac{\text{Indiana Property}}{\text{Total Property}} + \frac{\text{Indiana Payroll}}{\text{Total Payroll}} + 2 * \left(\frac{\text{Indiana Sales}}{\text{Total Sales}} \right) \right] \div 4$$

The bill phases out the payroll and property factors by 10% each year from 2007 to 2011. The phaseout schedule is as follows:

	Sales Factor Weight	Combined Weight of Payroll and Property Factors
Current	50%	50%
2007	60%	40%
2008	70%	30%
2009	80%	20%
2010	90%	10%
2011 and after	100%	0%

After the phaseout of the payroll and property factors in 2011, a corporation's income would be allocated to the state based on its Indiana sales as a proportion of its total sales in the United States. The single-sales-factor apportionment formula is presented below:

Indiana Sales

Total Sales

Corporate AGI taxes are distributed to the General Fund. In FY 2005, \$608.4 M was collected in corporate AGI Taxes.

Methodology: The fiscal impact is estimated based on a taxpayer simulation using 2003 Corporate AGI taxpayer information (from the IT 20 returns) and recalculating tax liabilities based on the changes in the apportionment formula. The revenue estimates above are based on the first year that corporate taxpayers were taxed solely on adjusted gross income and not gross receipts. *The extent to which this change in tax policy will alter the corporate tax base and future revenue collections is unknown.* Based on the simulation, the net revenue loss from moving to single-sales-factor apportionment is not the result of all corporate taxpayers experiencing some decline in tax liability. Rather, it is the additive result of some taxpayers experiencing a decrease in tax liability and others experiencing an increase in tax liability that fails to fully offset the total of the tax reductions. The simulations using 2003 taxpayer data resulted in about 2,300 taxpayers experiencing a decrease in net tax liability after credits and about 4,700 experiencing an increase in net tax liability after credits. The simulations also resulted in nearly 28,500 taxpayers being unaffected by the change to single-sales-factor apportionment.

The low-range estimate is the net impact on tax liabilities assuming that the taxpayers experiencing tax liability increases due to single-sales-factor apportionment would not have additional NOL (net operating loss) deduction amounts or tax credit amounts to reduce these higher tax liabilities. Thus, they would utilize the same NOL deduction amounts and tax credit amounts as reported in 2003. The high range is the net impact assuming that some taxpayers experiencing tax liability increases due to single-sales-factor apportionment will have sufficient additional NOL deduction amounts and tax credits to reduce these higher tax liabilities. *It is important to note that the net revenue loss could potentially exceed the high range if all of the taxpayers experiencing increased liabilities are able to utilize additional NOL deduction amounts or tax credits to reduce these higher tax liabilities to zero.*

The tables below summarize the results of the 2003 taxpayer simulations. The table below shows the extent that single-sales-factor apportionment would have affected 2003 Indiana **apportioned income**. A total of 35,396 taxpayers were used for the simulation, with 7,128, or 20%, experiencing an increase in Indiana apportioned income and 4,034, or 11%, experiencing a decrease in apportioned income. The net effect for these taxpayers was a 6% decrease in Indiana apportioned income. A total of 24,234, or 69%, of all the regular C corporate taxpayers experienced no change in Indiana apportioned income.

Effect of Single-Sales-Factor (SSF) Apportionment on Indiana Apportioned Income - 2003 Tax Data*						
Apportioned Income	# Affected	Apportioned Income - Current	Apportioned Income Under SSF	Difference	% Diff.	Avg. Diff.
Increase	7,128	\$1,703.9 M	\$2,265.0 M	\$561.1 M	33 %	\$78,718
Decrease	4,034	\$2,287.0 M	\$1,473.1 M	(\$813.9 M)	(36%)	(\$201,751)
Total Affected	11,162	\$3,990.9 M	\$3,738.1 M	(\$252.8 M)	(6%)	(\$22,645)
No Change	24,234	\$1,290.9 M	\$1,290.9 M	\$0	0	\$0

* This table is the effect on corporate taxpayers fully phased-in single-sales-factor apportionment.

The next table summarizes the impact that single-sales-factor apportionment would have had on 2003 **net tax liabilities** (after credits) for the same group of corporate taxpayers. The simulations resulted in 4,678, or 13%, of the taxpayers experiencing a tax increase and 2,309, or 7%, of the taxpayers experiencing a tax decrease. The net decrease in tax liability for all affected taxpayers would have been about 4%. A total of 28,409, or 80%, of the regular C corporate taxpayers would have experienced no change in net tax liability after credits.

Effect of Single-Sales-Factor (SSF) Apportionment on Net Tax Liability After Credits - 2003 Tax Data*							
Tax Liability	# Affected	# of Payers	Current Tax	Tax Under SSF	Difference	% Diff.	Avg. Diff.
Increase	4,678	3,950	\$116.0 M	\$163.6 M	\$47.6 M	41%	\$10,683
Decrease	2,309	2,136	\$156.9 M	\$99.5 M	(\$57.4 M)	(37%)	(\$13,473)
Total Affected	6,907	6,086	\$272.9 M	\$263.1 M	(\$9.8 M)	(4%)	(\$6,568)
No Change	28,409	8,819	\$87.2 M	\$87.2 M	\$0	0	\$0

* This table is the effect on corporate taxpayers fully phased-in single-sales-factor apportionment.

The last table shows the shift in the share of AGI taxes that would have been paid in 2003 by the three groups of corporations. The simulation results indicate that the share of taxes paid by taxpayers experiencing an increase in liability goes from 32% to 47%. The share for corporations experiencing a reduction in tax liability falls from 44% to 28% of the total.

Taxpayers who's taxes...	% Share under Current Law	% Share under Single Sales
Increase	32%	47%
Decrease	44%	28%
are Unaffected	24%	25%

Other Corporate Tax Provisions: The bill contains a provision which clarifies that when property is delivered or shipped to an Indiana resident, regardless of the f.o.b. designation, or other conditions of a sale, the company making the sale is required to attribute that sale to the numerator of the company's sales factor for corporate

AGI Tax purposes. The bill also requires a corporation that files combined Income Tax returns to petition the Department of State Revenue for permission to discontinue filing combined returns. Neither of these provisions is expected to have a fiscal impact.

Hoosier Business Investment Tax Credit (HBITC): The bill makes the following two changes relating to the HBITC.

(1) The bill extends the sunset date for the HBITC by two years from December 31, 2007, to December 31, 2009. This would allow for new credits to be awarded by the IEDC for qualified investment occurring in 2008 and 2009. The potential amount of new credits that might be certified by the IEDC in 2008 and 2009 is indeterminable, with the fiscal impact of these credits potentially beginning in FY 2009 and FY 2010. A total of \$331.7 M in new credits was awarded in 2004 (the first year of HBITC), and \$149.6 M in new credits were awarded in 2005.

(2) The bill eliminates the separate deadline for creditable investment in machinery, equipment, or special purpose buildings used to make motion pictures or audio productions. The HBITC was extended to this type of investment effective May 15, 2005, but qualified investment must be made before January 1, 2008. The bill eliminates this deadline. The potential amount of new credits that might be certified by the IEDC for investment arising after the current deadline is indeterminable. The amount of new credits awarded in 2005 for qualified investment relating to motion picture or audio production is unknown at this time.

Background: Under current statute, the IEDC Board is authorized to award the nonrefundable HBITC for expenditures on qualified investment determined to foster job creation and higher wages in Indiana. The tax credit is equal to 10% of the qualified investment. (Note: The maximum allowable credit was 30% of qualified investment if approved before May 15, 2005.) A taxpayer may claim the credit against the AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. The tax credit may be approved only for qualified investment made during tax years 2004 to 2007. The credit is nonrefundable and may not be carried back. Unused tax credits may be carried over for up to nine years after the year in which the investment is made, unless a shorter carryover period is stipulated by the IEDC Board. A total of \$331.7 M in new credits was awarded in 2004 for 54 projects consisting of \$1,106.1 M in qualified investment. In 2005, \$149.6 M in new credits was awarded for 58 projects consisting of \$578.4 M in qualified investment.

(Revised) ***Dog Tax:*** The bill establishes a state Special Canine Research and Education Account within the state General Fund. Money deposited in a county canine research and education account would be deposited into the state Special Canine Research and Education Account semi-annually. Income earned or money held in the state Special Canine Research and Education Account becomes a part of the account; revenue remaining in the state Special Canine Research and Education Account does not revert to the state General Fund at the end of a fiscal year.

The bill annually appropriates all money deposited in the state Special Canine Research and Education Account during a state fiscal year to the Purdue University School of Veterinary Science and Medicine for its use in conducting canine disease research.

Farm Mutual Insurance Companies: This bill would allow farm mutual insurance companies to choose to be taxed either under the Corporate AGI Tax or the Insurance Premium (IP) Tax. Currently, farm mutual insurance companies are only taxed under the Corporate AGI Tax. It is assumed that all farm mutual insurance companies would choose the tax treatment that would minimize their tax liability each year. There are currently

38 farm mutual insurance companies in the state.

It is estimated that this provision will decrease Corporate AGI Tax collections. If this bill had been effective in taxable year 2004, the loss in Corporate AGI Tax collections would have been approximately \$200,000, and the gain in Insurance Premium Tax collections would be approximately \$85,000, resulting in a net loss of \$115,000 in state revenues.

The corporate AGI Tax rate is 8.5% and the IP Tax rate is 1.3% on gross premiums received on policies covering risks in the state. Revenue from the corporate AGI Tax and the IP Tax is distributed to the state General Fund.

(Revised) ***Sales Tax Paid By Entities:*** This bill provides that an entity that:

- (1) is an entity that was established for the purpose of providing youths with the opportunity to play supervised and organized baseball against other youths;
- (2) before 2002 qualified as a nonprofit corporation under Indiana law;
- (3) during 2002, 2003, 2004, and 2005 did not maintain its status as a nonprofit corporation under Indiana law due to the failure to make certain filings;
- (4) regained its status as a nonprofit corporation beginning in 2006; and
- (5) was assessed by the Department of State Revenue for delinquent state gross retail taxes owed for 2002, 2003, 2004, and 2005 and has paid those assessments;

is entitled to a refund by the DOR for any Sales Taxes which were assessed for the period that this entity failed to maintain nonprofit status.

The only entity known to qualify for a refund under this section of the bill is the Hartford City Little League. The refund is estimated to be approximately \$5,000. This section expires on July 1, 2008.

Explanation of Local Expenditures: (Revised) ***Petition and Remonstrances:*** The bill would restrict taxing units from using their resources to promote a bond or lease after the initial adoption of the ordinance or resolution to issue a bond or enter into a lease. Currently, this prohibition only applies during the remonstrance process. It would also restrict schools from using students in any way to promote a position on a project, and school staff may not personally identify a student as a child of a parent in support or opposition to a petition or remonstrance. The bill would prohibit a taxing unit from compelling an employee to promote a position on the petition or remonstrance. Persons that have a contract or arrangement with a school corporation for the use of facilities would be prohibited from spending money to promote a position.-

Background:. The Department of Local Government Finance approved about 106 school lease rentals or bond issues totaling about \$2.2 B for CY 2004 and CY 2005. School lease rentals or bond issues that have been subjected to the current petition and remonstrance process have been won by schools about 50% of the time. Many times the unsuccessful project was modified and then was successful.

Taxpayer Notifications: Under current law, the county treasurer must send a tax statement to either the taxpayer or to the taxpayer's mortgage company if the mortgage company maintains an escrow account for property tax payments. The county treasurer may include in the statement an itemized listing for each levy, including the tax rate, the entity levying the tax, and the dollar amount of the tax owed. The treasurer may also include information regarding the manner in which the taxes are to be used.

Current law also contains a pilot program in selected counties that will become a statewide requirement in 2008

to provide additional statement information to all taxpayers, regardless of whether the tax bill is sent to the taxpayer's mortgage company. The additional information includes:

- (1) A breakdown of property taxes that will be distributed to each taxing unit;
- (2) A comparison showing any change in the property's AV from the previous year;
- (3) A comparison showing any change in the property tax liability from the previous year including the current and previous year liability attributable to each taxing unit and the percentage change in each;
- (4) An explanation of, and filing requirements for, the homestead credit, property tax deductions, and appeals procedures; and
- (5) A checklist that shows the homestead credit and all property tax deductions, and whether the homestead credit and each property tax deduction applies in the current statement.

Under the proposal, beginning with taxes payable in 2008, the county treasurer must mail to both the taxpayer and to the taxpayer's mortgage company a statement including all of the current required and optional information. Under this provision, the DLGF, subject to State Board of Accounts approval, would prescribe the form to be used. The proposed requirements that (1) provide the added information (rather than just the billing information) to mortgage companies and (2) include currently optional information (itemized listing of levies and rates, and tax usage information) in all statements could add to the expense of providing the new statements.

(Revised) **Jasper County CAGIT:** The bill would permit the Jasper County Council by ordinance to increase their CAGIT rate by 0.15%, 0.20%, or 0.25% for capital expenditures and operation/maintenance of their correctional facilities. However, the increase would be limited to the amount of revenue generated by a rate that is equal to the capital, operational, and maintenance jail expenditures incurred by Jasper County. After retirement of all bonds and leases, the county would be allowed to maintain a jail rate that does not exceed the costs to operate and maintain their jail facilities. The county would be allowed to maintain the jail rate for maintenance and operations until rescinded by ordinance.

(Revised) **Elkhart County/Marshall County CAGIT:** Elkhart and Marshall Counties would be allowed to use the revenue generated from an additional CAGIT jail rate for jail operation and maintenance expenditures in addition to capital expenditures. However, their respective jail rates would be limited to the amount of revenue generated by a rate that is equal to the capital, operational, and maintenance jail expenditures incurred by those counties. After retirement of all bonds and leases, both counties would be allowed to maintain a jail rate that does not exceed the costs to operate and maintain their jail facilities. Both counties would be allowed to maintain the jail rate for maintenance and operations until rescinded by ordinance. Current law requires Elkhart and Marshall CAGIT rates to return to 1.00% when construction and financing for their jails has been completed.

(Revised) **Scott County COIT:** Scott County would use additional revenue generated by a rate increase in COIT to finance, construct, acquire, improve, renovate, equip, maintain, or operate their county jail. The county treasurer would establish a county jail revenue fund for the receipt of the additional revenue.

Dog Tax: Under existing law, township assessors must take a census of the dogs in the township and collect the Dog Tax. All money derived by the Dog Tax must be used for the payment of damages sustained by owners of certain stock, fowl, or game killed, maimed, or damaged by dogs. Townships forward to the county at the end of a year any funds in a township dog fund exceeding \$300 over and above orders drawn on the fund.

Funds transferred to counties are deposited in the county dog fund. Money in the county dog fund is distributed among the townships or to humane societies. If the funds are insufficient to pay for damaged stock, fowl, and game, the losses are paid from the State Dog Account. Surplus remaining in the county dog fund is paid to the Auditor of State and placed in a separate account of the state General Fund known as the State Dog Account. All money in excess of \$50,000 remaining in the State Dog Account after annual distributions are distributed to Purdue University for the School of Veterinary Science and Medicine and to the general fund of each county. As of January 13, 2006, the State Dog Account had a balance of \$48,864.

The bill repeals IC 15-5-9, which governs the responsibility of administering the Dog Tax and Dog Fund, including the payment of claims made against the fund for dog-related damages.

(Revised) **County Option Dog Tax Form:** The bill requires the Department of Local Government Finance (DLGF) to prescribe a county option dog tax return form. DLGF should be able to do so within its existing level of resources.

The county treasurer would be required to make the county option dog tax form available to the public and include a copy of the form with every property tax statement. The form would be required to be preprinted and include: (a) the name of the person or persons liable for the county option dog tax, if known, and (b) the names of the dogs subject to the tax imposed, if known. This provision of the bill would likely result in additional administrative and printing costs for counties choosing to adopt a county option dog tax.

(Revised) **County Reimbursement of Dog Kill Claims:** Counties would still be responsible for payment of claims submitted by persons for damages, less compensation by insurance or otherwise, sustained by owners for specific stock, fowl, or game killed, maimed or damaged by a dog; and for paying for the expense of rabies post exposure prophylaxis that is incurred by any person who is bitten by or exposed to a dog known to have rabies. During FY 2005, claims paid from the Dog Fund totaled \$63,182. An additional \$28,211 in claims are unpaid at this time.

The bill requires county auditors to establish procedures and create forms for the submission of claims. County auditors would also be required to verify claims and issue reimbursement to approved persons.

(Revised) **Redevelopment Commissions:** See *Explanation of Local Revenues* below.

Explanation of Local Revenues: Reassessment of Sold Lots: Under existing law, farmland is assessed at a lower rate (\$880 per acre multiplied by a productivity factor) than the rate at which residential, commercial, or industrial property is assessed. If the land is transferred from agricultural land to a developer and is subdivided into lots, the land may not be assessed until the next change of title. Typically, the title is transferred to a residential, commercial, or industrial user, but it could be transferred to another developer. Current law also requires that the land would be reassessed if it is re-zoned. It is possible under current law that the developer could still own the land when it is re-zoned. A case was brought before the Tax Court. The Tax Court determined that the law was ambiguous and that the land should be reassessed when the land is re-zoned regardless of who owned it.

The proposal provides that in the case of land in a developer's inventory (whether it be the initial developer or not), the land should not be reassessed until the developer transfers title, regardless of whether the land has been re-zoned.

The impact of the bill will be to delay the addition of the land's AV as residential, commercial, or industrial land to the tax rolls, which will result in lower overall AV until the land is reassessed from agricultural to residential, commercial, or industrial. The delays would also delay a shift of the property tax burden from the owners of land that is assessed as agricultural to all taxpayers in the form of an increased tax rate.

Total local revenues, except for cumulative funds, would not be affected. The delay in increasing the AV will delay any increase in revenue that cumulative funds would experience because of the increase in AV that would be experienced when the land is reassessed from agricultural land to residential, commercial, or industrial. The delay would equal the product of the fund rate multiplied by the difference in AV resulting from the reassessment.

Standard Homestead Deduction: Beginning with taxes payable in 2007, this provision would adjust the current \$35,000 standard deduction for homeowners each year by the change in statewide average homestead AV. This adjustment would account for changes to the average homestead AV due to a general reassessment or annual AV adjustments (trending).

The initial adjustment for trending will be effective for taxes payable in 2007 under current law. This initial adjustment will catch up the values used in the 2002 Pay 2003 reassessment from 1999 market values to 2005 market values and will also apply factors for equalization where necessary. Then for each year beginning with taxes payable in 2008, the values will be updated for only one year's change in market values. The statewide average growth in AV for homestead property applicable to taxes payable in 2007 is currently estimated at 28%. Other property types will have varying levels of assessment changes. After 2007, the change in residential AV is expected to be around 3.5% per year.

Under this proposal, the \$35,000 standard deduction is expected to increase to about \$44,800 for taxes payable in 2007 and \$46,350 for taxes payable in 2008. The deduction would continue to rise each year by the change in average homestead AV. The statewide total standard deduction for taxes paid in 2005 was \$49.7 B AV. Under this proposal, the total standard deduction could rise to \$64 B for taxes payable in 2007 and \$66 B for taxes payable in 2008.

The additional standard deduction amount will cause a shift in part of the property tax burden from homesteads to all property. The net shift is estimated at about \$134 M in CY 2007.

Abatements for Used Equipment: Under current law, only new manufacturing, research and development, and logistic equipment may qualify for property tax abatements. The abatements are available for up to ten years. Beginning with taxes paid in 2007, this proposal would allow local designating bodies to grant abatements on used (as well as new) equipment if the equipment was never used by the applicant in Indiana.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision. The impact would depend on the number and value of new abatements that might be granted because of this proposal.

Credit for Excessive Residential Property Tax: Under current law, counties may provide credits against the

property tax liability of residential property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. At the county's discretion, residential property may include any combination of homesteads, apartment complexes, and other residential rental property. No application is required to receive the credit. The county auditor must identify the eligible property and apply the credit.

Under this bill, for taxes paid in 2008 and in 2009, each county would be required to pay this credit. All forms of residential property – homesteads, apartment complexes, and other residential rental property – would qualify for the credit in all counties. Counties would no longer have the option of choosing the type of residential property covered by the credit. Beginning with taxes paid in 2010, the credit would apply to all real and personal property in all counties under this provision.

Credit Funding: Currently, counties are permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county are required to repay the loan and must impose a property tax levy to repay the debt. This levy is subject to the unit's maximum permissible levy limit and cannot be the basis for obtaining an excessive levy. If the property tax credits are granted, but not funded through a loan or other revenue source, the credits effectively reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit is a local revenue reduction in the year granted.

Under this provision, beginning with taxes paid in 2007, counties would not be permitted to borrow money to fund the credit. The credits would reduce revenues for local civil taxing units and school corporations in affected counties.

Homesteads: An analysis of **2003** parcel-level tax data indicates that there were 37 counties with at least one homestead that could qualify for the credit. Of those, only 13 counties had more than five qualifying homesteads. There are two counties, Lake and St. Joseph, where the credit for homesteads would be of any real significance at 31,800 and 3,000 credits, respectively. Also of note are Delaware (273) and Vigo (419) Counties. The total of all potential credits on homesteads in 2003 was \$18.7 M. The notable counties are Lake (\$16.9 M), St. Joseph (\$1.5 M), Delaware (\$106,000), and Vigo (\$127,000). Lake and St. Joseph Counties make up the bulk of the potential 2003 credit at \$18.4 M. *The actual 2005 Lake County credit for homesteads amounted to \$13.4 M.*

All Residential Property: An analysis of 2003 parcel-level tax data indicates that there were 60 counties with qualifying residential property (homesteads, apartment complexes, and other residential rental property) that could qualify for the credit. The total of potential credits on all residential property in 2003 was \$127 M. The notable counties are Lake (\$64.0 M), Marion (\$21.0 M), and St. Joseph (\$19.5 M). Lake, Marion, and St. Joseph Counties account for the majority of the potential 2003 credit at \$104.5 M.

All Real Property: An analysis of 2003 parcel-level tax data indicates that there were 61 counties with qualifying real property of any type that could qualify for the credit. The total of potential credits on all real property in 2003 was \$291 M. The notable counties are Lake (\$135.9 M), Marion (\$55.3 M), and St. Joseph (\$44.7 M). Lake, Marion, and St. Joseph Counties account for the majority of the potential 2003 credit at \$235.9 M.

Personal Property: An analysis of 2005 county abstract data indicates that the total of potential credits

on all personal property in 2005 was at least \$218 M in 88 counties. The notable counties are Lake (\$82.3 M), Marion (\$33.3 M), and St. Joseph (\$19.3 M).

All Real and Personal Property: A combination of the real and personal property analyses indicates that the total of potential credits on all real and personal property could total \$509 M. The notable counties are Lake (\$218.2 M), Marion (\$88.6 M), and St. Joseph (\$64.0 M). These counties account for the majority of the potential credit at \$370.8 M.

As a result of changing levies and tax rates, assessment adjustments, and more expensive new homes, the number and cost of the credits changes each year. In 2007, annual real property AV adjustments and the elimination of the remaining inventory are set to become effective. The number and cost of the credits in 2007 depend on (1) the types of property included by each county, (2) changes in the assessed value of real property, and (3) changes in tax rates. Tax rates should not grow much and may even fall under other provisions of this bill which limit property tax growth. If the qualified residential assessed value grows faster than tax rates, then the cost could be reduced.

2006 Credit: Currently, a county that wishes to provide local property tax credits for residential property must adopt an ordinance allowing the credit by June 30th of the year before the year in which the taxes are payable. This bill would allow counties to adopt an ordinance to allow the credit against taxes paid in 2006 at any time before the 2006 tax bills are issued. The fiscal impact of this provision is fully dependent on local action.

Enterprise Zone (EZ) Investment Deduction: The bill provides that the deduction for investment in an EZ under the jurisdiction of a military base reuse authority must be approved by the authority before the taxpayer is entitled to the deduction. The additional approval requirement could potentially reduce the number of property tax deductions that would otherwise be claimed for certain real and personal property investment in the EZs located at Ft. Benjamin Harrison or the Indiana Army Ammunition Plant in Clark County. However, any reduction would depend on action by the reuse authority boards administering these two EZs.

Background: The EZ Investment Deduction allows the increase in AV from "qualified investment" in real and/or personal property of an EZ business to be deducted for up to ten years. A taxpayer must apply to the county auditor to claim the deduction for a particular year. The county auditor would determine whether the taxpayer is eligible for the deduction. Qualified investment at an EZ location includes: (1) purchase of a building, new manufacturing or production equipment, or new computers and related office equipment; (2) costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements; (3) onsite infrastructure improvements; (4) construction of a new building; and (5) costs associated with retooling existing machinery. The bill applies to the two EZs in the state that are under the jurisdiction of a military base reuse authority board - the Ft. Benjamin Harrison Reuse Authority and the Indiana Army Ammunition Plant Reuse Authority.

Jackson County CAGIT: The bill would allow Jackson County the option to continue the imposition of CAGIT at a 1.1% rate for jail construction until July 1, 2011. Unless the county were to reduce the rate before the proposed expiration date, the impact to Jackson County revenues should be neutral.

Background- Jackson County's CAGIT CY 2006 certified distribution was \$7.3 M. The additional 0.1% rate has been effective since July 1, 1998. It is estimated that from CY 1999 to CY 2006, the county has averaged about \$685,000 in revenue per year at the 1.1% rate.

Jasper County CAGIT: If a 0.25% rate increase were effective on July 1, 2006, the additional rate is estimated to generate approximately \$1.41 M in CY 2007, \$1.45 M in CY 2008, and \$1.5 M in CY 2009 for jail operation and maintenance.

Background: Jasper County currently imposes CAGIT at a 1.00% rate and will receive a CY 2006 certified distribution of \$5.43 M.

Elkhart County/Marshall County CAGIT: Elkhart and Marshall Counties raised their CAGIT rates (both were 1.00%) in FY 2004 by 0.25% for jail construction. The following table illustrates the rates and CAGIT certified distributions for CY 2006 in both counties.

County	FY 2006 Rate	CY 2006 CAGIT Certified Distribution*	CY 2006 Jail Portion of CAGIT	CY 2006 CAGIT County Certified Share
Elkhart	1.25%	\$44,411,610	\$8,882,322	\$10,731,683
Marshall	1.25%	\$9,304,992	\$1,860,998	\$2,435,745
*Elkhart and Marshall Counties both devote 25% of their certified distribution to property tax replacement. The remaining 75% of their distributions are split into certified shares.				

(Revised) **Scott County COIT:** If the Scott County Council determines that additional COIT revenue is needed to fund jail improvement capital projects, the Council would be allowed to increase the county's COIT rate by no more than 0.25%.

If an ordinance to increase the rate were adopted by the Council before April 1 in a given year, the additional rate would be effective on July 1 of the same year. If the ordinance were adopted after March 31 in a given year, the rate would be effective July 1 in the year following adoption.

In either adoption scenario, Scott County would begin to receive revenue from the tax in the immediately following year. Therefore, if Scott County were to adopt the additional COIT rate in CY 2006, the county would begin to receive revenue from the rate increase in January 2007.

If a 0.25% rate increase were effective on July 1, 2006, the additional rate is estimated to generate approximately \$0.82 M in CY 2007, \$0.85 M in CY 2008, and \$0.87 M in CY 2009.

All revenue generated by an additional tax rate would be set aside for the jail before the certified distribution is divided between the civil taxing units in the County.

Background: Under the bill, Scott County would be authorized to maintain a combined COIT and County Economic Development Income Tax (CEDIT) rate not exceeding 1.5%. Under current law, with a few exceptions, the maximum combined rate of COIT and CEDIT is 1.00%.

Scott County received a certified COIT distribution of \$3.2 M in CY 2006 at a 1.00% rate. The county also received a certified CEDIT distribution of \$0.48 M in CY 2006 at a 0.16% rate.

Dog Tax: Under the bill, counties would no longer receive Dog Tax revenue from the townships. However, counties that forwarded surplus Dog Tax money to the state would receive 50% of the money remaining in the State Dog Tax Fund on January 1, 2007. The amount that the counties would receive would be in proportion to what each county forwarded to the state relative to all other counties. As of January 13, 2006, the state account contained \$48,864. If the January 1, 2007, balance is comparable, about \$25,000 would be distributed among the eligible counties. Under the proposal, counties would be required to distribute this revenue in equal shares to all the townships in the county. The township must deposit the money in the township dog fund which is abolished. The money must be distributed to pay for claims, fees and charges, humane societies, and the township general fund.

Additionally, for each individual dog tag or kennel license issued, the township assessor (or trustee who collects the fee) retains an administrative fee of \$0.50. Administrative fees collected by the assessor are deposited in the county general fund, and administrative fees collected by the trustee are deposited in the township general fund. Repealing the Dog Tax will decrease revenue in the township funds.

(Revised) **County Option Dog Tax:** This bill allows the fiscal body of a county to adopt an ordinance to impose a tax on dogs at least 6 months of age that a person harbors or keeps in or near the person's premises in the county. Money derived from the tax, less any fees, is to be deposited in the county option dog tax fund. A tax imposed may not exceed \$5 per year for each dog subject to the tax. The bill establishes a maximum amount of county option dog tax that may be imposed per year for dogs kept in kennels for breeding, boarding, or training purposes or for sale. The maximum amount would be equal to the lesser of the total amount of county option dog tax calculated, or for a kennel consisting of: (a) at least 15 dogs at least 6 months of age, \$30, or (b) less than 15 dogs at least 6 months of age, \$20.

The American Veterinary Medical Association reports that there are approximately 1.2 million dogs in the state. If each of these animal's owners were to remit the county option dog tax, revenue could equal up to \$6 M annually. However, the amount would be reduced by the number of kennels paying less than \$5 per dog at least 6 months of age. The number of kennels consisting of at least 15 dogs or less than 15 dogs is not known. As a result, actual increase in revenues is indeterminable.

The bill requires a county treasurer to establish a county option dog tax fund if the county fiscal body has adopted a county option dog tax. The county treasurer must also establish a canine research and education account within the county option dog tax fund. Interest and investment income derived from money in a county option dog tax fund becomes part of the county option dog tax fund. Money in a county's county option dog tax fund does not revert to the county's general fund at the end of a calendar year. Twenty percent of money deposited in the county option dog tax fund is to be deposited in the county canine research and education account. The remaining 80% is to be designated for uses determined by the county fiscal body. Under the bill, counties would be allowed to appropriate the aforementioned 80% of funds to animal care facilities for expenses associated with the pickup and disposal of dead animals, to reimburse farmers for livestock kills, and to reimburse people who have undergone rabies post exposure prophylaxis.

(Revised) **County Income Tax:** Beginning in CY 2007, this provision would allow counties to shift most increases in levy-capped property tax levies to a county income tax. Counties that wish to freeze controlled property taxes would have to adopt an ordinance to (1) impose a complete freeze on controlled property tax imposed on non-corporate property, (2) impose a partial freeze on controlled property tax imposed on property owned by a C-corporation, and (3) impose a county income tax, known as the County Income Tax Increment (CITI), to replace the lost revenue.

Under current law, maximum permissible levy increases are calculated by multiplying the previous year's actual controlled levy by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV. This method began with taxes paid in 2004. Cumulative funds and certain other funds are controlled by the property tax rate limit. Debt service fund levies are not capped and must be sufficient to make required payments.

Under this proposal, levies that are currently subject to the maximum levy limitation would continue to grow under the current controls. However, in a county that adopts the CITI, taxpayers who are not C-corporations would receive an additional property tax replacement credit, effectively capping their property tax liability for controlled funds at the amount levied in the year before the shift to income tax. Rate-controlled and debt service fund levies would not be affected by this cap. C-corporations would also receive a property tax replacement credit, but the credit would be based on only a portion of their controlled tax liability that exceeds the base year amount. The percentage of the excess that would be replaced is dependent on the CITI income tax rate. For each 0.1% of CITI tax rate, the percentage of C-corporation excess is reduced by 0.5%. For instance, 98% of C-corporation excess would qualify for replacement if the CITI rate is 0.4%. The C-corporation maximum replacement would be for 99% of the excess amount.

The total controlled increase amounts of all of the taxing units in the county would be added together to form the amount that county income taxpayers would have to pay through the CITI tax. Overall, a taxing unit's controlled revenue under this proposal should be about the same as the current controlled levy amount.

The CY 2006 controlled tax base is estimated at \$5,439 M. The estimated controlled increase amounts and county income tax rates are shown in the following table.

Estimated Controlled Revenues and County Income Tax Rates*

	Total Controlled Increase	County Income Tax Rates		
		Average	Minimum	Maximum
CY 2007	\$264 M	0.24%	0.00%	0.47%
CY 2008	\$527 M	0.43%	0.10%	0.90%
CY 2009	\$804 M	0.65%	0.19%	1.60%
CY 2010	\$1,097 M	0.86%	0.27%	2.34%
CY 2011	\$1,407 M	0.99%	0.30%	2.99%

* Tax rates shown are in addition to local option income tax rates. These amounts do not reflect the limitation on C-corporation property tax replacement and therefore may slightly overstate the controlled increase amounts and income tax rates.

For taxpayers, the impact will vary. Overall, since the state's PTRC and homestead payments would be capped, net tax amounts, whether from property or income tax, would be higher than under current law. Local taxpayers would pay the full amount of local tax increases rather than receiving a credit from the state for part of the increase. No tax shifts would occur as they relate to the amount of property taxes already levied in 2005.

Property owners who are C-corporations would pay a larger percentage of their gross taxes as net taxes because of the reduction in the PTRC rate for C-corporation-owned property in another provision of this bill.

There would, however, be tax shifts as they relate to the revenue increases over the base year levy. Tax increases would be shifted away from property owners and to income earners. In many cases, these are the same taxpayers, and in some cases they are not. Moreover, a taxpayer's share of property tax burden may or may not be comparable to that taxpayer's share of income tax burden. All county income tax payers would share in providing the total revenue increases for all units.

In addition to all other local option income tax rates, this bill would allow a county that has adopted the CITI tax to also impose an additional income tax rate of up to 1% to be used for additional property tax credits against controlled property tax levies. C-corporation taxpayers would not receive any credits from the supplemental income tax. In CY 2007, a 1% county income tax rate in each county would generate about \$1,183 M, statewide.

Tuition Support: The bill increases the maximum tuition support distribution for CY 2006 to schools to the greater of \$3,802,900,000 or the amount sufficient such that the Department of Education would not be required to may a reduction in tuition support in the last six months of CY 2006.

Abatement - Foundry: This provision would retroactively grant property tax abatements to a Grant County taxpayer that operates a grey iron foundry. The abatements would be granted for taxes payable in 2001, 2002, 2003, and 2004 if the taxpayer applied in 2001 for the deductions and the deductions were denied by the DLGF. The taxpayer would be entitled to file refund claims for taxes paid on the abatement amounts. The total net tax that would be refunded under this provision is estimated at \$150,000. This refund would result in a reduction of property tax revenues for the taxing units that serve the taxpayer in the year in which the refund is paid.

Exemption - Fraternity: This provision would retroactively provide property tax exemptions to a fraternity at Butler University that failed to timely file applications for exemption. The exemptions would be applicable to taxes payable in 2001, 2002, 2003, and 2004. If taxes have already been paid for an affected year, the exemption would result in a refund of taxes which would reduce overall tax revenues in the year refunded.

Exemption - Youth Soccer Organization: HEA 327 - 2005 allows a youth soccer organization to claim a refund of property taxes paid that were due in 2000 to 2004 if the tax liability exceeded \$33,000. The Zionsville Youth Soccer Association's refund claim was for more than \$33,000 of tax liability and penalties. The actual tax liability was less than \$33,000 but greater than \$30,000. This provision clarifies that the tax liability would have to have been greater than \$30,000 (and not \$33,000) to qualify for the refund.

Fire Protection District Tax Levy: The bill could increase property tax levies for fire protection districts if the district has had at least a 50% increase in assessed valuation from CY 2000 to CY 2005 (The CY 2000 AV is multiplied by 3 to reflect the change from 1/3 True Tax Value to True Tax Value). The maximum amount of the appeal is \$425,000. There are about 47 fire protection districts with operating levies of about \$18.2 M. Approximately 35 of the districts have had a growth in assessed value of over 50% between CY 2000 and CY 2005. The maximum increase in levies would be about \$14.9 M if all eligible districts applied for the maximum increase. The appeal would more than triple the levies for about 27 of the 35 districts. The impact if no district increased their levy by more than 100% would be about \$4.6 M.

Installment Payments of Property Taxes: Under current law, a county may petition the DLGF to establish a schedule of installments for the payment of property taxes on homesteads in the county. The petition must be approved by the county auditor and the county treasurer. Under this provision, the approval of the auditor and treasurer would no longer be needed. This provision would make it simpler to establish an installment payment system.

(Revised) ***Redevelopment Commissions:*** The bill allows redevelopment commissions in counties other than Marion to establish under certain conditions housing programs by resolution in allocation areas where:

- (1) At least one-third of the parcels are vacant;
- (2) 75% of the area is, or will be, used for residential purposes;
- (3) At least one-third of the residences in the area were constructed before 1941; and
- (4) At least one-third of the parcels:
 - (a) Have dwellings that are not permanently occupied;
 - (b) Are subject to an order regarding the correction of code violations or unsafe conditions;
 - (c) Have two or more delinquent property tax payments; or
 - (d) Are government-owned.

The total area within the allocation area must not exceed 150 acres. The program must be approved by the municipal legislative body or county executive. The commission must hold hearings in the neighborhood affected. A special tax may be levied to accomplish the housing program.

The base assessed value (AV) of the allocation area would be equal to the AV of land on the assessment date that precedes the date on which the allocation area is established. The base AV would not include any valuation of real property improvements. Property taxes paid on valuation in the allocation area that exceeds the base valuation would be deposited into an allocation fund.

Money in the allocation fund may be used for:

- (1) Construction, rehabilitation, or repair of residential units and infrastructure;
- (2) Property acquisition;
- (3) Property demolition;
- (4) Financial assistance to low-income families for the purchase or lease of a residence, either directly or through a neighborhood development corporation; and
- (5) Property tax replacement credits in the allocation area.

The proposal would permit the commission to grant property tax replacement credits to taxpayers in the allocation area equal to the percentage of state property tax replacement credits in the taxing district that contains the allocation area. These credits could be paid only if the appropriate county or municipal legislative body establishes the credit by ordinance. The credit would reduce the net proceeds available to the allocation area.

If the allocation area currently contains non-exempt real property improvements, then the exclusion of this valuation from the base assessed value would shift some part of the tax burden from the taxpayers that own the improvements to all other taxpayers. It is assumed that any existing improvements in an allocation area would have minimal value.

Total local revenues for civil units and school corporations, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by

the loss in AV from improvements excluded from the base AV. Redevelopment commissions would realize an increase in revenue from the property tax payments on the incremental AV in the allocation areas. This revenue would be generated as a result of redevelopment.

(Revised) ***Exemption - Missed Exemption:*** This provision would grant an exemption to an organization in Marion County that filed a tax exemption application in 2004 but failed to attend the exemption hearing held by the county property tax assessment board of appeals. The exemption would be allowed at the same percentage that was granted for a tax exemption application filed in 2005.

The number of taxpayers in Marion County that missed their 2004 exemption hearings and could receive an exemption under this provision is not currently known. If the taxpayer paid the tax due in absence of the exemption, then the county would have to refund the tax paid. Property tax refunds reduce current year property tax collections in the current year.

(Revised) ***School General Fund Tax Rates:*** This provision would make an adjustment to school general fund tax rates each time an adjustment to assessed values results from a general reassessment or an annual AV adjustment. The school general fund tax rate is set by the state's school funding formula. Under current law, all other statutory rates are subject to adjustment each time assessments are adjusted. This provision treats the school general fund rate in the same manner.

(Revised) ***Maximum Levy Increase:*** Under this provision a municipality would receive an increase in its maximum levy if the municipality (1) has population growth at more than twice the statewide growth, (2) had a 44% reduction in its maximum levy in 2004, (3) did not appeal in 2004 for an excessive 2005 levy, (4) appealed for an excessive 2006 levy, (5) received a favorable recommendation for the 2006 levy appeal from the state's Local Government Tax Control Board, and (6) received a denial on the 2006 levy appeal from the DLGF. The city of Franklin in Johnson County would qualify for a levy increase under this provision. The amount of the increase would be \$2.5 M.

State Agencies Affected: DLGF; Department of Education; Department of State Revenue; Indiana Economic Development Corporation; State Budget Agency.

Local Agencies Affected: Counties, townships; Fire Protection Districts; Local redevelopment commissions; Civil taxing units and school corporations in counties where the credit for excessive homestead taxes applies; Jackson County; Elkhart County; Marshall County; Jasper County; Scott County; Ft. Benjamin Harrison Reuse Authority; Indiana Army Ammunition Plant Reuse Authority; City of Franklin.

Information Sources: Local Government Database; County parcel-level real property assessment records; County auditor's abstracts; DLGF; *Indiana Handbook of Taxes, Revenues, and Appropriations*; Jackson County Auditor's Office; State Budget Agency; Elkhart County Auditor; LOGODABA; Claudia Ontiveros-Fuentes, IEDC, (317) 234-0616; Gretchen White, IEDC, (317) 234-3997.

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